



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2013 Biennium

Bill #	SB0253	Title:	Eliminate certain individual and corporation tax credits
Primary Sponsor:	Lake, Bob	Status:	As Amended in Senate Committee

- ☐ Significant Local Gov Impact
 ☒ Needs to be included in HB 2
 ☒ Technical Concerns
- ☐ Included in the Executive Budget
 ☐ Significant Long-Term Impacts
 ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>	<u>FY 2014 Difference</u>	<u>FY 2015 Difference</u>
Expenditures:				
General Fund	(\$5,732)	(\$5,732)	(\$126,194)	(\$131,719)
State Special Revenue	(\$6,000)	(\$6,000)	(\$6,000)	(\$6,000)
Revenue:				
General Fund	\$0	\$12,513,958	\$13,426,433	\$14,374,675
State Special Revenue	(\$6,000)	(\$6,000)	(\$6,000)	(\$6,000)
Net Impact-General Fund Balance:	<u>\$5,732</u>	<u>\$12,519,690</u>	<u>\$13,552,627</u>	<u>\$14,506,394</u>

Description of fiscal impact: This bill would repeal 16 credits that can be taken against individual income tax, corporation license tax, or both. This will increase general fund revenue by \$12.5 million in FY 2013, growing to \$14.5 million by FY 2015.

FISCAL ANALYSIS

Assumptions:

1. This bill would repeal 16 tax credits for 2012 and following tax years. The first column in the following table lists the credits SB 253 would repeal. The next three columns show the amount of each credit claimed against individual income tax, corporation license tax, and in total for the latest tax year for which returns have been filed and processed (2009 for income tax and 2008 for corporation tax). The column labeled "Unused" shows the amount of three non-refundable, non-carryover credits that taxpayers were unable to use because their credits were more than their tax liability. The column labeled "Carried Over" shows the amount of credits that must be carried over to another year. The right-hand column shows the net reduction in current revenue.

Credits Claimed in Latest Tax Year

Credits Repealed by SB 253	(\$ millions)		Total	Unused	Carried Over	Net
	Income Tax	Corp Tax				
Energy Conservation Credit	\$10.103	n/a	\$10.103	\$1.609	-	\$8.494
Alternative Fuel Vehicle Conversion Credit	\$0.040	-	\$0.040	\$0.018	-	\$0.022
Recycling Credit	\$0.463	\$0.072	\$0.535	\$0.151	-	\$0.384
Biodiesel Production Facility Credit	\$0.000	-	\$0.000	-	-	\$0.000
Biodiesel Blending Credit	\$0.003	-	\$0.003	-	-	\$0.003
Geothermal Heating Systems Credit	\$0.534	-	\$0.534	-	\$0.268	\$0.266
Alternative Energy Systems Credit	\$1.322	n/a	\$1.322	-	\$0.277	\$1.045
Alternative Energy Production Credit	\$0.033	\$0.015	\$0.048	-	\$0.009	\$0.039
Historic Property Preservation Credit	\$0.188	-	\$0.188	-	\$0.128	\$0.061
Infrastructure Users Fee Credit	\$0.028	\$0.503	\$0.531	-	\$0.001	\$0.530
Mineral Exploration Credit	\$0.008	\$0.000	\$0.008	-	\$0.000	\$0.008
Film Employment Credit	-	\$0.017	\$0.017	-	\$0.011	\$0.005
Film Expenditure Credit	\$0.025	-	\$0.025	-	-	\$0.025
Total	\$12.749	\$0.607	\$13.356	\$1.779	\$0.694	\$10.883

2. HJR 2 does not include projections for individual tax credits. It assumes a single growth rate for income tax credits as a group. This fiscal note assumes that each of the credits repealed by this bill will grow at the HJR 2 rate for all credits. The following table shows the HJR 2 assumption of credit growth from 2009 and the projected total current law net revenue reduction from these credits for 2012 through 2014.

	<u>TY 2012</u>	<u>TY 2013</u>	<u>TY 2014</u>
HJR 2 Growth from 2009	19.47%	25.74%	32.34%
Current Law Revenue Reduction	\$13,002,083	\$13,684,692	\$14,403,139

3. This bill would allow taxpayers who have credits carried forward from earlier years to continue to claim them in 2012 and later years. The amount of credits carried forward from one year to the next appears to have been relatively constant in the recent past. This fiscal note assumes that credits carried forward from 2011 will be the same proportion of total credits as in 2009, that two-thirds will be used in 2012 and that the remaining third will be used in 2013. The following table shows credits carried forward from 2011.

	<u>TY 2012</u>	<u>TY 2013</u>
Credits Carried Forward from TY 2011	\$462,431	\$231,215

4. Taxpayers who take the film credits are not allowed to deduct business expenses that are used as the basis for their credits. With the credits repealed, taxpayers would deduct these expenses. This would partially offset the revenue increase from ending the credits. The tax impact of these increased deductions was calculated by dividing the projected credit amounts by the credit rates to give expenses and then multiplying by the corporate tax rate of 6.75%. This assumes that individuals who claim the credit have, on average, a marginal tax rate of 6.75%. The following table shows the revenue reduction from these additional deductions.

<u>TY 2012</u>	<u>TY 2013</u>	<u>TY 2014</u>
\$25,695	\$27,044	\$28,463

5. Eliminating credits would directly increase revenue by the amounts shown in Assumption 2. This would be partly offset by the credit carryovers and deductions in Assumptions 3 and 4. The following table shows the net revenue impact.

<u>TY 2012</u>	<u>TY 2013</u>	<u>TY 2014</u>
\$12,513,958	\$13,426,433	\$14,374,675

6. Taxpayers who plan to claim the film employment credit are required to file an application with a fee of \$500. Fees are evenly split between the Department of Revenue and the Department of Commerce and are used to fund the credit application and verification process. Fees for the last three years averaged \$6,000 per year, with half going to the Department of Revenue. This bill would eliminate the fees and the corresponding costs.
7. In the Department of Revenue, verification and auditing of credits is spread across a number of positions which do this work for part of the year and other work for the remainder of the year. Eliminating these credits would allow the department to reallocate work and phase out 2.0 FTE tax examiner positions. Since this bill would eliminate credits for tax year 2012, the department would continue to receive and process returns with the eliminated credits through all of 2012 and part of 2013. Returns with credits carried forward from 2011 or earlier years would continue to be processed through at least 2014. These returns could be audited through at least 2017. Since these audits would occur under current law, there is no change to anticipated revenue. Additional cost savings may occur once the statute of limitations has expired for tax year 2011.
8. This bill would eliminate 16 fields from income tax returns and 15 fields from corporation tax returns. Having fewer fields would slightly speed entry of each paper return processed. The time saving is approximately equal to 0.25 FTE. Tax return data entry is done primarily by seasonal employees hired under aggregate FTE. The department would need as many employees during the peak processing period as under current law, but would be able to reduce the total amount of data entry time by 0.25 FTE beginning in FY 2012.
9. The department would eliminate the 2.0 FTE tax examiner positions at the beginning of FY 2014. Cost savings are shown in the following table.

	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Personnel Costs – Data Entry	(\$5,732)	(\$5,732)	(\$5,847)	(\$5,964)
Personnel Costs – Auditing			(\$105,292)	(\$107,399)
Operating Costs – Auditing			(\$15,055)	(\$15,356)
Total	(\$5,732)	(\$5,732)	(\$126,194)	(\$128,719)

10. Changes to income and corporate tax returns and instructions would be made as part of the normal annual update process with no additional costs. Corresponding changes to the department's data capture and data processing systems would require 700 hours of programming and 150 hours of testing. This would be covered under the vendors' current maintenance agreements. There would be no additional costs, but resources would be diverted from other projects, thereby delaying them.

	<u>FY 2012</u> <u>Difference</u>	<u>FY 2013</u> <u>Difference</u>	<u>FY 2014</u> <u>Difference</u>	<u>FY 2015</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
FTE	(0.25)	(0.25)	(2.25)	(2.25)
<u>Expenditures:</u>				
Personal Services	(\$5,732)	(\$5,732)	(\$111,139)	(\$113,363)
Operating Expenses	<u>(\$6,000)</u>	<u>(\$6,000)</u>	<u>(\$21,055)</u>	<u>(\$21,356)</u>
TOTAL Expenditures	<u>(\$11,732)</u>	<u>(\$11,732)</u>	<u>(\$132,194)</u>	<u>(\$134,719)</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	(\$5,732)	(\$5,732)	(\$126,194)	(\$128,719)
State Special Revenue (02)	<u>(\$6,000)</u>	<u>(\$6,000)</u>	<u>(\$6,000)</u>	<u>(\$6,000)</u>
TOTAL Funding of Exp.	<u>(\$11,732)</u>	<u>(\$11,732)</u>	<u>(\$132,194)</u>	<u>(\$134,719)</u>
<u>Revenues:</u>				
General Fund (01)	\$0	\$14,809,736	\$15,842,740	\$16,917,838
State Special Revenue (02)	<u>(\$6,000)</u>	<u>(\$6,000)</u>	<u>(\$6,000)</u>	<u>(\$6,000)</u>
TOTAL Revenues	<u>(\$6,000)</u>	<u>\$14,803,736</u>	<u>\$15,836,740</u>	<u>\$16,911,838</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$5,732	\$14,815,468	\$15,968,934	\$17,046,557
State Special Revenue (02)	\$0	\$0	\$0	\$0

Technical Notes:

1. This bill repeals Section 15-32-609, MCA, which gives the Department of Revenue rulemaking authority with respect to the deduction for purchase of reclaimed material in Section 15-32-610, MCA. The bill eliminates the credit for investment in recycling equipment in 15-32-601 through 604, MCA, but does not eliminate the deduction in 15-32-610, MCA.
2. This bill repeals sections 15-32-701, 702, and 703, MCA, which provide credits for biodiesel facilities. Each of these sections has a recapture provision for situations where a taxpayer claims a credit for a facility and then does not carry through with operation of the facility to be eligible for the credit. By repealing the recapture provisions along with the credits, this bill appears to intend that credits claimed through tax year 2011 not be subject to recapture after the effective date of the bill. If that is not the intent, it would be useful to indicate this in the transition provisions

*Sponsor's Initials*_____
*Date*_____
*Budget Director's Initials*_____
Date